



CSDR

Settlement Discipline Framework

EuroCCP - Information and Q&A

Priority - Normal

Impact - For Your Information

Contact – Change and Business Management

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Document history:

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1.0	2020-07-08	First version	
1.1	2021-10-15	Updated version	Updated live date, Buy-in, cash, Comp, general info, updates from EACH consultation

1. Introduction

This CSDR Settlement Discipline Framework living document will be updated on a regular basis to provide the current and latest updates on the upcoming CSDR changes and the impact for EuroCCP clients.

This all depends on the decisions taken by the European Commission after the suggestions raised by EACH and other market Associations. An update is expected the end of October 2021 on the implementation of SDR in Feb 2022. EuroCCP does not expect to have any Clearing Rule Book change, however new or amended EuroCCP Regulations will follow the usual client consultation process during the project.

Although several CSDs are still in the process of publishing their technical specifications on CSDR pending the definite version of SDR, there are already several known impact areas which we expect need to be completed to become CSDR compliant.

This document will provide detailed information on what processes are confirmed along with items which are still 'under development/discussion' for which we will define once agreed.

Information that is available will be updated on a regular basis, including a track changes version to identify the latest updates.

2. Main changes

As part of the new CSDR regulations the following key processes will be impacted:

- Settlement instructions,
- Cash Penalties - Collection and Distribution of late matching or late settlement penalties,
- Buy-In process and timelines,
- Cash compensation processes and timelines,

The specifics of these changes will be further detailed in this document.

3. Settlement Instruction impact

3.1. Impact on sending settlement instructions

CSDs have announced several changes in the way certain fields in SWIFT settlement instructions are validated or processed. In general, the CSDs have a harmonized approach but there are some small deviations per market to keep in mind while implementing the CSDR requirements.

3.2. Place of Trade (94B)

CSDs need to derive the actual place of trade from the settlement instruction to be able to calculate the applicable penalty rate for transactions completed on SME Growth markets. A CSD will only apply the

lower penalty rate when both the delivering and receiving instructions contain the same Segment MIC of the SME Growth market. This is only applicable for the markets subject to CSDR so excluding the UK and the Swiss market.

CSDs have announced the following measures to address this requirement:

- Validate the Place of Trade against ISO 10383 standards
- Make Place of Trade a mandatory field

To prevent rejections of instructions from CSDs and to make sure that instructions will get the applicable penalty rate, EuroCCP will implement the following measures for populating the Place of Trade in the settlement instructions:

- CCP Cleared instructions which contain trades from 1 Segment MIC will contain the Segment MIC in the place of trade field (this is important for instructions on SME Growth markets).
- CCP Cleared instructions which contain trades from multiple venues (cross exchange netted) will contain the value 'VARI' as place of trade.
- EuroCCP will only use ISO 10383 compliant MICs (no more dummy MICs and 'CEUC' was removed effective 5 July 2021).

3.3. Trade date (98a)

Trade date already has become a mandatory field for multiple CSDs. It is recommended to always populate the trade date in your settlement instructions as early as possible within the project as CSDs are expected to make this a mandatory field prior to go live.

3.4. Cross-exchange netting

The netting across exchanges will be impacted due to the deviating penalty rates and buy-in timelines for SME Growth markets. This will result in a default setting where EuroCCP will exclude the trades executed on SME Growth markets from the cross-exchange netting. A separate settlement instruction will then be created for the netted trades executed on each SME Growth market including their applicable SME MIC code for the CSD to calculate the correct penalty rate if the SME indicator is included in both legs.

3.5. Ongoing discussions

There are some additional fields in the SWIFT instructions where we expect some small changes to happen:

- (CSDR) 'Transaction type' (22F) - CSDs have different implementations for this field. As soon as we have a clear overview of the requirements this will be communicated.
- 'Place of Clearing' - this field will be populated by either the CSD or by the CCP (EuroCCP will use BIC EMCFNL2A or EMCFNL2AXXX when populating). The Place of Clearing is used to identify if the transaction was cleared through a central counterparty (CCP). This may be used to identify who is responsible to manage the collection and distribution of cash penalties (the CSD or the CCP). We do not expect any impact for clients, but this will be confirmed as soon as all specifications from CSDs are available.

4. Cash Penalties

The expectation is that Article 19 will be followed at the current go live date of Feb 2022, resulting in EuroCCP collecting and redistributing the cash penalties to clearing members. The likelihood is that Article 19 will be removed later in 2022 from SDR post the Feb 2022 live date and clients should make plans to ensure this change can be managed within a short period resulting in CSDs collecting all penalties using one systemic process, as supported by various market associations. Several other topics are still under discussion with Authorities and being tracked with the various Market Associations.

4.1. Collection and distribution of penalties

CSDR outlines the requirement for penalties on settlement instructions that fail to match and / or fail to settle on the Intended Settlement Day (ISD). The CSDs will be responsible for the calculation, collection and distribution of these penalties (non CCP cleared instructions). For CCP cleared instructions the CCPs are responsible for the collection and distribution of penalties (Article 19).

EuroCCP has started the implementation of the changes required to collect and distribute penalties for its clearing members. This monthly process is very similar to the process at the CSDs. As EuroCCP is active across many CSDs, the positive difference is that EuroCCP will net penalties at currency level across CSDs, which reduces the number of penalty payments.

EuroCCP working with EACH and ECSDA envisages the model to work as described:

- The CSD is responsible for the daily calculation and reporting of penalties to all CSD members.
- EuroCCP will provide daily penalty reports to its clearing members (DFF). These reports will be very similar to the format of the Monthly Fee Invoice File (MFF). The information on the penalties can also be retrieved from the CSD (or agent/custodian), as CCP activity will also be included in the CSD daily reporting.
- Appeals of penalties have to be applied at the CSD, not through the CCP (EuroCCP is only responsible for collecting and redistributing of the CSD reported penalties). We expect clients to reconcile these through their daily reporting from the CSD or their settlement agent depending on the account set up and appeal if they see any discrepancies. Only in exceptional circumstances, like technical issues, settlement confirmation or position breaks between EuroCCP and the CSD, EuroCCP will appeal directly with the CSDs.

The monthly process contains the following steps:

- Ultimately on the 14th penalty business day EuroCCP will receive the final penalty reports from the CSDs;
- As soon as EuroCCP has received all penalty reports from the CSDs, EuroCCP will process and report all penalties via the MFF file;
- The netted penalty amount to pay or receive from each Clearing Member (per currency) will be determined, whereby the distribution of invoices to the clearing members is expected to be similar to the existing monthly invoice with the amounts to be paid/received per clearing member (1 invoice per currency). This will be a separate process for the penalties due to the timelines being different to the current monthly billing cycle (Current billing distributed in Euro within 10 business days);
- In case an CSD is too late with its reporting, EuroCCP will run a 2nd penalty report batch;

- EuroCCP will mirror the timelines and the generation of payment instructions per clearing member per currency on the 17th business day aligning to the CSD timelines;
- Confirmation of the collection and distribution of penalties will be reported back to each CSD by EuroCCP.
- The mandatory payment model will be Direct Debit and Direct Credit payments to clearing members. For this purpose, Direct Debit arrangements are required in the local currencies EUR, SEK, DKK and NOK. Multi-currency settlements in Euroclear and Clearstream are reported and charged in Euro.
- In markets where EuroCCP uses a Custodian bank (Czech, Hungary & Poland) the CSD will process all penalties due to the CCP not being the account owner at the CSD.

Cash penalties will be levied as follows:

- There are Late Matching Fail Penalties (LMFP), which will be charged to the party who has sent or last touched the instruction in case matching occurs after ISD. EuroCCP will always allocate these to the respective client.
- There are late Settlement Fail Penalties (SEFP), which are charged to the party responsible for not settling this instruction. Settlement failure can be because of lack of cash, lack of shares or if the party has put their instruction on Hold (this also applies to receiving parties) If both parties have their instructions on hold, both parties will be charged.

4.2. Penalty reporting EuroCCP

Each month, EuroCCP will run a new separate CSDR penalty process with the below 3 existing fail fee components for Communication & Reporting to clients, to debit and credit in 4 different currencies (EUR, NOK, SEK, DKK):

- **FAI:** fail penalty collection, charged to clients failing to deliver to EuroCCP (majority will be a debit, but some could be a credit),
- **FAC:** penalty distribution, compensate clients failing to receive from EuroCCP (majority will be a credit, but some could be a debit).
- **FAO:** third party fail penalty collection, covering the CSDR fines EuroCCP could not allocate to a single client.

OUTPUT and TIMELINES:

- Daily report of gross CSDR fail fees, both FAI + FAC in a report – **DFP (Daily Fail fee File)**
- Monthly report, distributed on the 15th BD of the month – **MFF (Monthly Fail fee File):**
 1. Records of the gross CSDR fail fee details; FAI, FAC
 2. Records of the gross FAO fees at FAI reporting level
 3. Records of the net fees at individual currency level
- **Monthly PDF invoice** via email of net CSDR fees per individual currency, distributed via email on the 15th BD of the month

- **Cash booking** Direct Debit or Direct Credit of each individual currency with value date the 17th BD of the month

4.3. Penalty Mismatch scenarios

There are several circumstances which can create mismatches in penalties which can result in a potential loss/profit on CCP level as follows:

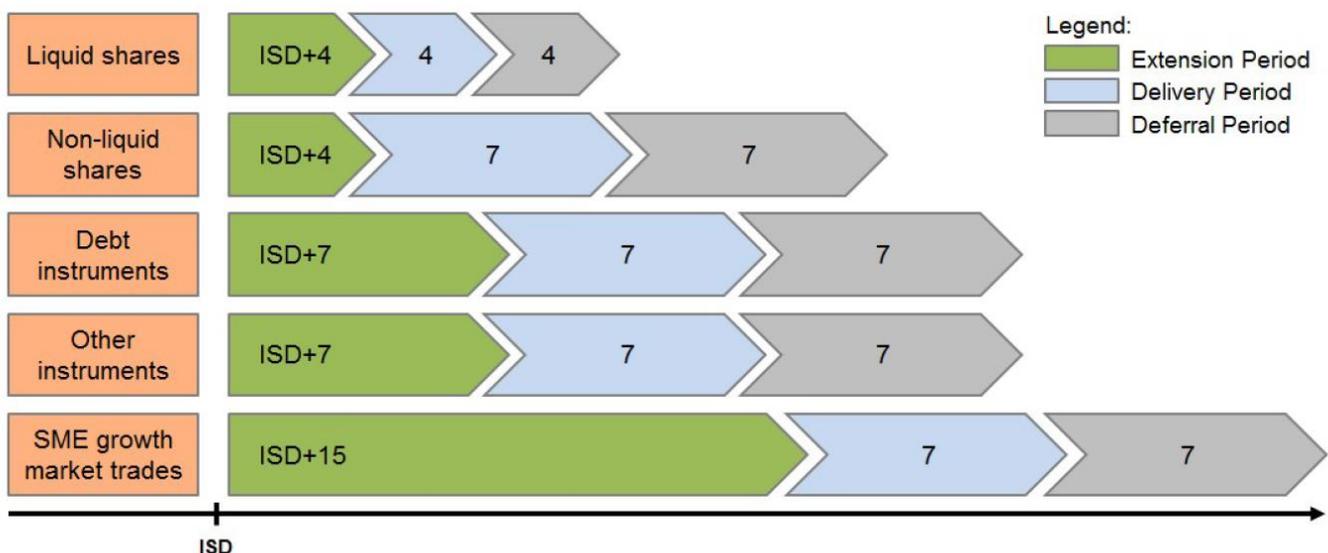
- Late delivery from clearing members just prior to the CSD market cut-off time, without the ability to onward deliver and thus causing an overnight securities position with the CCP. We are working with T2S and the CSDs to minimise this where possible.
- The receiving clearing member does not have partial settlement enabled (PARQ is mandatory) – EuroCCP to allocate the respective fail fine to the receiving clearing member.
- Difference in penalty between SME Growth Market penalty and non-SME Growth Market penalty (same ISIN).
- Strange nets.
- Once receiving participants block EuroCCP’s deliveries, resulting in penalties for EuroCCP, these penalties will be passed on to the receiving participants.
- This is not a limitative list, multiple other scenarios will be possible, however EuroCCP will try to allocate the exact penalty to the respective failing clearing member.

EuroCCP will mutualise all penalty mismatches at CSD level, amongst all clearing members fail volumes in the applicable CSD.

5. Buy-In process

EuroCCP expects the Buy-In aspects of CSDR to be decoupled from the penalty process which is due to go live in Feb 2022 and this is under review with the relevant authorities. The expectation in this instance would be for EuroCCP to continue to use the short selling regulation (SSR) buy in process currently in place today. CSDR changes the timelines for the buy-in. In the new Settlement Discipline Regime, the type of instrument in combination with the type of market (SME Growth or not) will determine the number of days allowed before the buy-in has to start.

The following table shows the allowed buy-in timelines (see remarks below the table for deviations):



Note: All periods are measured in business days except the SME growth market extension period, where calendar days are noted.

- SME buy in period could be reduced from ISD+15 if the SME venue requests a shorter timeline otherwise EuroCCP we use the full 15 days
- For CCP-cleared transactions the 7-day delivery and deferral period is not applicable (this is the same as liquid shares)
- The number of days mentioned for the extension period for SME Growth markets is in Calendar days (This is under review with the authorities to confirm business days will be used).

Important timings from EuroCCP:

- EuroCCP will send a buy-in notification depending on the local market timing.
- A clearing member will be able to settle transactions until DVP close on the 1st day of the delivery period.
- A buy-in execution notice will be sent at DVP close on the first day of the delivery period.

6. Cash Compensation functionality

The expectation is this will be decoupled as part of the Buy-In process and EuroCCP will publish more information when available. Reporting requirements

EuroCCP will follow the market standards as far as the mandatory reporting of buy-in and cash compensation to the CSDs is required.

7. Member Testing

This is expected to be made available in Q4 2021, pending outcome delay to February 2022, with further details to be communicated when available.

8. Planning

The current formal planning is that SDR comes into force on 1 February 2022. This extended go live date has been approved by ESMA, European Commission and the European Parliament in October 2020.

Several of the CSDs have started or are in the process of starting their penalty calculation and reporting as of the September 2021 (connected to the Swift release). During this 'dry run' the CSDs will calculate and report the penalties but will not actually collect and distribute them. These timings can still change.

9. Rule / Regulation changes

EuroCCP is looking to make minimal changes where possible and reuse processes used today in order to reduce the workload for clients upon implementation. Any changes required will be communicated when available and are expected to impact the following regulations:

- Regulation Buy-in procedure
- Regulation Settlements
- Regulation Fees and penalties

Questions & Answers

Article 19

As per the EACH CSDR SD Framework, EACH are working with ECSDA, ESMA and the European Commission for a solution to article 19. What is your 'drop dead' date for a response regarding this?

This is now finalised with the CCPs building to Article 19.

Have you already made provisions for the monthly collection and distribution process in the interim?

Yes

Will EuroCCP provide an updated version of the incumbent agreements containing wording with regards to the Settlement Discipline Regime?

No, there will be no changes to clearing agreements between EuroCCP and its clearing Participants, however only changes will be made applicable to the Regulations Settlements, Fees and Penalties and Buy-in Procedure.

Daily reporting

At what level will you report the penalties?

Specifications have been released whereby EuroCCP validates the settlement instruction references stated in the daily CSD reports against EuroCCP's internal systems and settlement instructions. The reporting level will be at; Settlement Instruction reference, Quantity, ISIN-code, Clearing Participant, Currency, safekeeping and (netting) Account level. We want to use the existing billing process and FIF reporting in order for us to compute the penalties charged and distributed on a monthly basis, a daily recon with the penalty reporting we are receiving from the CSD's is required. The CSDR fail fees will be based on existing fail fee record types;

- **FAI** (Penalty collection for failing client deliveries),
- **FAC** (Penalty distribution for failing client receipts), and
- **FAO** (mutualisation of fail fees among the failing trades per market).

Do you intend to provide participants with the daily penalties report?

EuroCCP will report the fails in a new report on a daily basis, called the Daily Fail Fee report (DFF), which is a fixed length TXT or XLS file, whereby the distribution method and set-up will be similar to our current CIF and FIF files. EuroCCP relies on the CSD timings to process their reports and expect to be distributing our reports around 14.00 CET. These reports will contain the penalty from the day before and will be cumulatively reported until billing has taken place.

If there is no penalty to be paid for a day, will we receive an empty file?

ECSDA footnote #13 on page 14, similar to CSDs, EuroCCP will provide empty reports. Can you provide a sample file?

EuroCCP is still in an implementation stage. The reports will contain New, Cancel and Amended fails. Files will contain the unreconciled data received from the CSDs, which EuroCCP will onward report to clients. Please see the technical specifications for the DFF on our website.

If yes, if a penalty gets amended by the CSD (e.g. due to incorrect rate), how will this be represented on the daily penalty reports? What code will we see this as?

The initially incorrectly reported fail fine will be reported as a Cancel and the correct fail fine will be reported as a New. A debit will be cancelled with a credit, followed by a possible additional fail fine with a new debit (or vice versa)

Do you have sample daily reports covering New/Amend/Cancel (Please provide samples if available)?

EuroCCP is still in an implementation stage.

Can other fields be added to the daily/monthly reporting?

Certain information is only provided and reported on Trade level by EuroCCP. FAI/FAC/FAO are on Instruction level. EuroCCP will not provide any addition fields than the ones in the technical specification as these are only applicable for CSDs to report to its members.

Can EuroCCP use the current technical connection for market instructions or should clients create a new one ?

Using the current setup is possible, as well as creating a new one.

Monthly reporting (MFF)

Do you have sample monthly reports covering New/Amend/Cancel (Please provide samples if available)?

EuroCCP is still in an implementation stage. Please see the technical specifications for the DFF on our website. The MFF will be an accumulated file, containing all DFF data.

Can you confirm daily and monthly reports will be sent by 12 PM CET (on either the following business day for the daily reports or on the 14th/15th & 17th business day of the following month of the monthly reports)?

EuroCCP aims to replicate the CSD timings where possible providing reports on the 14th and payment on the 17th business day. Some CSD's have extra modified reports that they send at 12 PM CET, EuroCCP will ensure that all these timings are taken into account so EuroCCP will make the client reporting available by 8pm CET.

The monthly report is a fixed length TXT or XLS file, whereby the distribution method and set-up will be similar to our current CIF and FIF files, having different record codes:

- the details of all fails during the month
- netting result per account, per currency, per fail type
- netted per currency to be debited or credited

Invoicing

Will EuroCCP reuse the current FIF file for reporting in order to reduce the build for clients, who are already automated receiving this format?

EuroCCP will re-use where possible the current FIF file formatting and processing. EuroCCP expects to send a daily file (DFF) which is comparable to the FIF file which entails all the accumulated information on the penalties. The monthly invoice will then entail the Net result per currency.

Provide in the FIF breakdown of the penalties per NCM so we can use this figure to charge our NCM clients. Can you please confirm?

Breakdown of penalties is completed per account, allowing Clearing Members to easily recognise and pass on costs to their clients.

What will be the exact netting rule? Per NCM per settlement currency? Can you please confirm?

Netting will be done at EuroCCP's client level, i.e. the (General) Clearing Member level per settlement currency.

Will VAT be included in the invoice?

VAT is not expected to be populated.

Eligibility

Will you be making your own eligibility determination for CSDR penalties or relying on the CSD's?

Yes, EuroCCP will reconcile the daily failing settlements reported by the CSD against our internal outstanding settlements. The penalties and rates will not be determined within EuroCCP's system, but onward reported. Once there is a mismatch between our internal outstanding settlements and the failing settlements reported by the CSDs, EuroCCP will appeal.

Will you be reconciling any of the CSD's penalty calculations?

EuroCCP will not reconcile the calculations/amount of the penalty itself and only reconciles whether the reported failing settlement is indeed a failing settlement in our system. The daily amounts will be processed in EuroCCP's system and reconciled against the monthly report distributed by the CSDs. EuroCCP will not validate the actual calculation of the penalty itself.

Collection and Distribution

At what level will you apply the 'party' concept for the purposes of collecting and distributing penalties? (level of the entity, LEI, BIC, participant securities account, or other).

Penalties are collected and distributed at Clearing Participant level.

What method will you use to collect penalties?

EuroCCP will work together with its members to implement a Direct Debit for the collection of penalties.

What method will you use to distribute penalties?

EuroCCP will credit its members via a Direct Credit functionality.

Will you use existing invoices to advise of the monthly penalties or create new ones ?

No, the CSDR fail fines will not be part of EuroCCP's invoice process but distributed and collected separately in a separate CSDR billing cycle each month.

In which currency is EuroCCP going to charge the penalties?

Penalties will be collected in EUR, SEK, DKK & NOK – Clients will require Direct Debit in place and tested for each applicable currency prior to live date.

In the case that you receive partial payment of the penalty, will you further distribute the penalties partially? And if so how will its recipients be determined?

No, EuroCCP does not expect to receive partial payments from our clients, as EuroCCP processes the payments as one net cash movement either via a Direct Debit or a Direct Credit per currency.

The CSDR regulation advises that when 'no direct debit is feasible' for the monthly penalty fees, the CCP participants must credit the CCP's dedicated cash account latest by 10am CET on 17th business day of the month. Are there any scenarios that you anticipate where you would not be able to direct debit our account?

The only scenarios EuroCCP envisage, is a currency holiday or shortage of funds in the clients allocated bank account, whereby standard procedures will apply in those cases.

Are participants required to set up dedicated cash accounts for paying/receiving penalties?

No.

How will you prevent duplicate penalties for the same failed obligation? This would be the case if a fail has been charged penalties and that fail is then deleted and replaced by new settlement instructions which represent the same failed obligation. This point is recognised in RTS Article 16(3) paragraph 3 sub-paragraph 2 for partial buy-ins where the reinstructed unbought-in fail is only charged penalty from the date the instruction is entered and not from the

intended settlement date. This same situation can arise in other cases, such as splitting a fail into two shapes such that different corporate action elections can be applied to each shape.

EACH is suggesting where a fail on which penalties have already been calculated is deleted and replaced by new equivalent settlement instructions, cash penalties shall apply to the new settlement instructions from the day those instructions are entered into the securities settlement system. Still under review.

Will there be an Appeal process and if so, how will that work?

Appeals of penalties must be applied at the CSD, not through the CCP.

Asset Servicing

Our understanding is that for Claim or Transformation Asset Servicing events: where an auto stock outcome is created, the CSDs will exclude the outcome from LMFP but include for SEFP. Can you confirm that where the CCP creates a Claim or Transformation stock outcome it is clearly indicated to the CSD as such?

EuroCCP will only process claims received from CSDs upon instructions it submitted to the CSD as part of its daily process. Internally created pending book-entries not reported to CSDs will not be levied penalties as such.

Penalty mutualisation

As per the EACH framework, where a CCP ends up holding securities that they are unable to deliver, they will either mutualise the cost among their clearing members on a fair basis or establish clear rules to assign the costs. In such an event, how will you charge CCP members for these costs?

EuroCCP will always try to determine the root cause of the holdings and assign the costs where possible. If EuroCCP is not able to assign the penalty, the costs will be mutualised per market amongst the number of failing client delivery settlements for that month.

Will the debit of the penalty mutualisation process be included in the monthly penalty charge or will they be charged separately?

The debit of the penalty mutualisation will be included in the monthly penalty collection/distribution process. This process will not be part of the current monthly billing process.

Eligibility

What databases will you use to determine whether the instrument is in scope and the calculations that should be applied? Will these be FIRDS: Financial Instruments Reference Database and FITRS: Liquidity Database?

CCPs will treat all Buy Ins as liquid shares using ISD+4, except for trades executed on SME markets, where the platforms can decide to apply for the extended period up to ISD+15. There is no database required as we rely on the CSD reporting.

SWIFT format (from CSDR framework)

Place of clearing - we have understood you will provide BIC code EMCFNL2A. Can you please confirm?

In general, EuroCCP will provide the BIC, unless the CSD populates this field themselves overriding the field contents.

Place of trade - double check the netting rule for SME markets. We noted your confirmation it will be option 1 from the EACH document, i.e. "Deny their Clearing Members the option of netting multiple SME growth markets (i.e. one separate net per SME growth market);"

EuroCCP will net all activity traded on an SME Growth market separate, and report the MIC in the settlement instruction. After liaising with the SME venues EuroCCP does not see an overlap of the same SME ISIN-codes on different SME venues.

Transaction type - Any visibility on when we can have complete feeding rule for this field? Can you please double confirm it will always be "NETT"?

EuroCCP's default value is NETT, unless a CSD would require a different qualifier. For the markets identified so far, we can state the following; Spain SETR/NETT, other CSD's SETR/TRAD or none. Norway also TRAD//EXCH/VARI.

Are participants required to identify the transaction type in settlement instruction in the field 22F::SETR? Is it a matching criterion?

It is recommended to use the correct Transaction type as it can have consequences for the buy-in penalty. It is not a matching criterion. Any special treatment with regards to SDR can only happen if both parties supply same transaction type.

Buy-in process - Fails Reporting

Do you currently send CCP members a daily fails trade report?

Daily fails are visible in EuroCCP's CIF reporting, and EuroCCP also offer to send Daily Fails (BIR-report) in XLS format via e-mail. The specifications of the BIR report will be enhanced to include SME buy-in timeframes and excluded the SDR fines.

Will this report be changed to accommodate CSDR, and will the buy-in timelines will be provided on your fails report?

The specifications of the BIR report will be enhanced to include SME buy-in timeframes and excluded the SDR fines.

Pre-Notification

In addition to the fails trade report, will you inform CCP members of failing trades eligible for buy-in before the end of the buy-in extension period?

Yes

If yes, can you confirm the pre-notification mechanism (timing, method, content, ack / nack)

EuroCCP are looking to use the same buy in notification warning emails used today, but will be distributing these on ISD+3 by 9am CET instead of ISD+4.

Partials

Will there be functionality to opt out of auto-partialing service for CCP cleared transactions?

No

Will there be any changes in the execution of pair-offs or netting requests?

There will not be any changes to pair-offs or netting requests, any charges as a result of these requests will be passed on to the clients. Any charges as a result of late matching will also be passed on to the client, as this deviates from our normal processes.

SME Venues

As per the EACH framework, will you create separate netted instructions for SME growth markets?

Yes

For EuroCCP members, will you continue to send daily nets in the same mechanism that you do today and will the only difference be that there will be an additional net included in the messaging?

Yes

Where there is a product traded on multiple SME venues, will you net these together (as long as the SME venues have the same extension period)?

EuroCCP will net all activity traded on an SME Growth market separately if both legs indicate that they are SME-trades and report the MIC in the settlement instruction. After liaising with the SME venues, we see minimal overlap of SME ISIN-codes on these venues.

If yes to the above, which MIC will you use on those dual SME nets?

N/A

Is your expectation that CCP members need to split their instructions to settle with EuroCCP between SME and non-SME nets?

EuroCCP will separately net the trades at the SME Market MIC-code level as executed on the specific SME Growth Market. This allows our clients and CSDs to recognise the SME qualifier in the settlement instructions to process and report the fails accordingly.

If yes: where there is a product traded on multiple SME venues, which MIC would you expect us to populate.

The segregation will be at each SME Growth market's MIC code level.

Extension Period+1

What will be your deadline for the final opportunity/timings to settle original trade on the day after the extension period?

ISD+5 at DVP cut-off mirroring today's timings for buy ins.

Where a netted transaction has trades that are subject to different extension periods - what extension period will you use and how will you inform CCP members?

N/A as EuroCCP will use ISD+4 for liquid and ISD+15 for SME Growth Market (and cross-venue netting will not be allowed for trades executed on an SME Growth market)

Notification (Article 27)

Where the CCP member is the failing to deliver clearing member, can you confirm if you will notify the CCP member of the initiation of the buy-in?

Yes

If yes, can you detail the mechanism (timing, method, content, ack / nack etc.).

As explained above we intend to use the existing Buy in notification warning on ISD+3 at 09.00 CET and execute the Buy in if still failing on ISD+5 directly after DVP cut-off.

Where the CCP member is the failing to receive clearing member, can you confirm if you will notify the CCP member of the initiation of the buy-in?

No

Buy-in Initiation

Can a buy in be passed on to a CCP?

As is currently the process, a buy in cannot be initiated against a CCP.

Can you confirm that you will always appoint a Buy In Agent (BIA) or launch an auction or a combination of both?

EuroCCP will continue to use its existing process to execute buy-ins via brokers.

Can you confirm which changes will apply to the current buy-in regime after CSDR?

Early buy-ins will be removed after CSDR comes into place aligning with the other CCP's and for Spain there will not be any more cash compensations at 120% and we will start with buy-ins for this market.

If the price of the securities agreed at the time of the trade is higher than the price paid for the execution of the buy-in, the corresponding difference shall be deemed paid to the delivering Clearing participant by EuroCCP. Currently the failing delivery party would be credited, after CSDR this would no longer be the case.

If CSDR buy in is introduced, clients will have the responsibility to put CCP activity on hold (Timeframe under review but expected to be within 30-60minutes after DVP cut-off. Penalty fee will be charged if the client fails to put the trade on hold and it settles in the next cycle requiring manual effort to reverse.

Reports – We expect to send clients a new automated report of all Buy Ins daily that have been executed (Timeframe to be advised) / Current fails report sent daily detailing fails and Buy ins will remain the same.

Can you confirm which buy-in processes will remain the same after CSDR?

For the Swiss and UK market there will be no changes with regards to the Market Makers and ETF buy-in Regime.

What is the process of providing settlement instructions in order to settle a buy-in?

EuroCCP will instruct a settlement instruction with the buy-in broker as counterparty. A special indicator :22F::RPOR//BYIY will be used to indicate that this concerns a buy-in settlement. The instruction with the failing recipient will remain in place and as soon as the stock from the buy-in broker is received, this will be used to settle the existing instruction.

The failing delivering party will be asked to cancel the original failing instruction which was initially placed on hold. Fees, charges and commissions from the buy-in process will be charged to the Failing party, as well as the cash compensation, if any.

When the buy in is partially successful, new settlements instructions for the remaining quantity will be sent using the same ISD as the original settlement instruction between EuroCCP and the failing party. This needs to include value code BSSP to ensure no additional late matching fail penalties are incurred with an ISD in the past. When this is sourced, the same process applies.

Buy-in Failed

Where you have successfully sourced the stock for a buy-in, will you allow that buy-in transaction to settle during both the first buy-in period and also the deferral period? Or will you cancel that buy-in at the end of the first buy-in period and re-source the stock for the deferral period?

Even though still under review and subject to client consultation, EuroCCP will allow settlement during both the first Buy-In period and Deferral period. Securities are sourced on a T+0, T+1 or T+2 basis. If the Stock Supplier has difficulties to settle during the agreed timelines, we will most likely use the Deferral period for final settlement.

If you are unable to settle the buy in within the prescribed first buy in period (4 days for shares and 7 days for other), will you inform the CCP member?

We will inform the failing delivering clearing member of the status of the buy in trade and settlement.

If you are unable to settle the buy in within the prescribed deferral buy in period, will you inform the CCP member?

We will inform the failing delivering clearing member of the status of the buy in trade and settlement.

Hold and Release

Where the CCP member is not using PARQ in its settlement instructions, will it be additional penalised in case of splitting?

Yes, EuroCCP has been mandating the use of PARQ by all CPs where possible. Use of PARQ is maximising settlement efficiency and minimising EuroCCP's overnight positions. If CPs are not using PARQ, and settlement instructions end-up to be split, shaped or manually partialled, additional Late Matching fines will be the result and allocated to the non-PARQ client.

Where the CCP member is the failing to deliver clearing member, will you offer functionality to automatically put instructions on hold?

Only in the Spanish market, EuroCCP has the functionality to put clients delivery instructions automatically on hold.

When (at time and date) will you put our instruction on hold?

In case EuroCCP communicates the hold request via Already Matched or Settlement Agent PoA, which will take place directly after the DVP cut-off on ISD +5, the status update should be informed directly from the CSD or the Settlement Agent.

Is EuroCCP prepared for the Partial release? And does it offer the Hold and Release possibility

EuroCCP offers the Hold and Release functionality for the Spanish market only. In addition, EuroCCP is preparing for the Partial release update as informed by Iberclear, to ensure that any released instructions after ISD, do not get charged with penalties because they are seen as new instructions. EuroCCP ensures this is done by releasing all instructions on S-1 and updating them with an MT530 instead of only releasing held instructions by cancelling the old instructions and replacing these. Until this change is finalised and implemented, clients should be aware that additional penalties may be the result of partial releases post ISD.

Buy in settlement

Will you deliver the bought in securities to the failing delivering clearing member's depot and allow the original instruction to settle or will you bilaterally cancel the transaction?

No, EuroCCP and the failing delivering clearing member will bilaterally cancel the original instruction.

Bilaterally Cancel

Can you confirm how the payment of the price difference in accordance to Article 35 will be settled? Detailing information to be provided to the CCP member and mechanism.

EuroCCP will notify its members via an email report BIE, whereby the cash amount is settled via a Direct Debit or Direct Credit in the original currency.

If price of bought in financial instruments is lower than that original paid for, will you credit the delivering clearing member or retain price difference?

EuroCCP will retain the price difference and not credit the failing receiving member.

Where the CCP member is the failing to receive clearing member, will you deliver the bought in securities using the original instruction?

Yes

Buy In Results

Will you inform CSD of the buy in results?

Yes

Cash compensation

Can you confirm that you will calculate the required cash compensation amount in accordance to Article 33?

Yes. The basis for a cash settlement is article 33 to Article 7(7) of Regulation (EU)No 909/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on SDR. Article 33, 1. For transactions cleared by a CCP, the CCP shall collect the cash compensation from the failing clearing members and pay the cash compensation to the receiving clearing members in case of any cash shortfall”.

Can you confirm that you will collect the cash compensation from the failing clearing member, and pay the cash compensation amount to the receiving clearing member in accordance to Article 33, regardless of our relationship with you (direct or indirect)?

Yes

If yes, what price source will you use to calculate cash compensation?

We will use the market value of the instrument on the business day prior to the cash compensation day as reported by Reuters if the market price is higher than the original price of the failed settlement. If the cash settlement price is lower (based on the business date prior to the cash compensation) we will deem the contract with the receiving CP as paid. The delivering CP will be debited for the full EuroCCP cash shortfall (the difference between the original failed settlement and the original failed settlement towards the receiving member). The cash compensation amounts will be at 100% in the new situation, eliminating the 20% penalty. These changes will be highlighted in the new regulations.

As per the EACH framework, will you establish any additional rules to levy additional penalties on the failing delivery member for causing a cash compensation?

No.

Bilateral cancellations

If you will bilaterally cancel our transaction, do you require the CCP member to send a cancellation request, or will you automatically cancel, regardless of our relationship with you (direct or indirect)?

Yes both sides need to send a cancellation request to cancel a trade unless CSD or Settlement Agent PoA is used, in which case EuroCCP will send the cancellation request directly to the CSD or the Settlement Agent of the CCP Member.

Asset Servicing

For instruments subject to a voluntary corporate action with a market deadline within 10 days, will you consider impacted transactions as out of scope for buy ins? If so, how will you inform the CCP member?

This is under review within the Market / Working Groups, but currently Rights are included in the buy in timelines. EACH is challenging all corporate actions subject to buyer protection to be excluded from the buy-in scope.

If yes, where will you source asset servicing events (source data)?

EuroCCP will source the asset servicing events directly from the CSDs and data vendors.

Where a transaction is open over the key dates of a transformation event, will you transfer the obligation to buy-in to the new transformed trade? Or, would you expect the obligation to remain on the original and therefore proceed to cash compensation?

Normally the buy in would continue to the transformed line. EACH is challenging all corporate actions subject to buyer protection to be excluded from the buy-in scope.

Where there is a stock compensation event do you expect the new compensation transaction to be eligible for buy-in? And if yes, would you consider the original ISD or payment date of the event to be the date you track for extension period?

Yes, EuroCCP relies on the CSDs to process original ISDs for compensation transactions.

Collateral transactions

Will transactions resulting from treasury or providing Collateral also be in scope for the penalties?

Although not cleared by EuroCCP, these will also be in scope if matched late or settle late. As EuroCCP always cancels these instructions as they have not settled at the end of the day, this should not pose any issue.

Appendix Penalty Fail rates:

4. Penalty Fail Rates

Type of Fail	Rate
<ul style="list-style-type: none"> Settlement fail due to a lack of shares that have a liquid market 	1,0 basis point
<ul style="list-style-type: none"> Settlement fail due to a lack of shares that do not have a liquid market 	0,5 basis point
<ul style="list-style-type: none"> Settlement fail due to a lack of financial instruments traded on SME growth markets 	0,25 basis point
<ul style="list-style-type: none"> Settlement fail due to a lack of debt instruments issued or guaranteed by: (a) a sovereign issuer as defined in Article 4(1)(60) of Directive 2014/65/EU; (b) a third country sovereign issuer; (c) a local government authority; (d) a central bank; (e) any multilateral development bank referred to in the second subparagraph of Article 117(1) and in Article 117(2) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (1);(f) the European Financial Stability Facility or the European Stability Mechanism. 	0,10 basis point
<ul style="list-style-type: none"> Settlement fail due to a lack of debt instruments other 	0,20 basis point
<ul style="list-style-type: none"> Settlement fail due to a lack of debt instruments traded on SME growth markets 	0,15 basis point
<ul style="list-style-type: none"> Settlement fail due to a lack of other financial instruments not covered in points 1 to 6 	0,5 basis point
<ul style="list-style-type: none"> Settlement fail due to a lack of cash 	Official interest rate for overnight credit charged by the central bank issuing the settlement currency with a floor of 0 (zero)

Processing timelines using a Buy-in Broker

Extension Period				Delivery Period				Deferral Period					
ISD+1	ISD+2	ISD+3	ISD+4	ISD+5	ISD+6	ISD+7	ISD+8	ISD+9	ISD+10	ISD+11	ISD+12		
Settlement recycles of EuroCCP's failing RVP settlements													
Settlement recycles of EuroCCP's failing DVP settlements and cancel upon settlement of Buy-in order or execution of Cash Settlement													
				DVP cut-off - Selling party's DVP on Hold				09.00 CET: If no execution has taken place: Cash Compensation				DVP cut-off: Cancel RVP of Failing Buy-in settlement and process Cash Compensation	
				DVP Cut-off: EuroCCP to submit Buy-in Order T+0, T+1 or T+2				If execution has taken place, but settlement fails, use maximum Deferral period					
								If execution has not taken place, EuroCCP cancels the buy-in order					

Please note, the above is still under review and will be part of client consultation. If members and Co-CCPs are using the full Deferral Period prior to cash compensating, EuroCCP will extend the buy-in order into the Deferral period as well.

Client communication / Interaction - Failing Delivering Clearing Member

Extension Period				Delivery Period				Deferral Period			
ISD+1	ISD+2	ISD+3	ISD+4	ISD+5	ISD+6	ISD+7	ISD+8	ISD+9	ISD+10	ISD+11	ISD+12
Daily Fail Fee reporting (fixed length TXT file in format similar to CIF/FIF file) - CSD reporting pre-reconciliation (daily)											
Monthly Fail Fee reporting (fixed length TXT file in format similar to CIF/FIF file) - Reconciled detailed CSD data (1* pm)											
Monthly Consolidated Fail fee notice per currency (netted sum of the Monthly Fail fee reporting) (1* pm)											
09.00 CET Buy-in Warning (BIW) EMAIL		DVP Cut-off: Inform start of Buy-in process Buy-in Notification (BIN) and request to put DVP on Hold EMAIL						09.00 CET: If no execution (full or partial) has taken place: Cash Compensation (PDF statement is Cash Compensation Debit - CCD) Request for Payment + Request to Cancel original DVP + Cancel EuroCCP RVP EMAIL (via PDF)		(CCD) Cash Compensation Request for Payment + Request to Cancel original DVP EMAIL	
		Upon Full Execution: Send Buy-in Execution (BIE) message + Cash Difference + Request to Cancel original DVP EMAIL		Partial: (BIE) Execution of the Partial + Cash Difference + Request to instruct remainder partial fail on Hold + Request to cancel Original DVP EMAIL							

Client communication / Interaction - Failing Receiving Clearing Member

Extension Period				Delivery Period				Deferral Period			
ISD+1	ISD+2	ISD+3	ISD+4	ISD+5	ISD+6	ISD+7	ISD+8	ISD+9	ISD+10	ISD+11	ISD+12
Daily Fail Fee reporting (fixed length TXT file in format similar to CIF/FIF file) - CSD reporting pre-reconciliation (daily)											
Monthly Fail Fee reporting (fixed length TXT file in format similar to CIF/FIF file) - Reconciled detailed CSD data (1* pm)											
Monthly Consolidated Fail fee notice per currency (netted sum of the Monthly Fail fee reporting) (1* pm)											
				Upon Full Execution and position received in EuroCCP's main account, EuroCCP will settle its delivery to failing buyer: Confirm Cash Difference via Direct Credit EMAIL	Partial: Upon Execution of the Partial and position received in EuroCCP's main account, EuroCCP will settle its delivery automatically (due to PARQ) to failing receiver: Cash Difference via Direct Credit EMAIL			09.00 CET: If no execution has taken place: (CCC) Cash Compensation Direct Credit + Request to Cancel original RVP EMAIL (via PDF)			DVP Cut-off at 09.00 CET: If no settlement has taken place: Cash Compensation Direct Credit + Request to Cancel original RVP EMAIL

Buy-in / Cash Compensation Example

Example of different price movements between original traded prices and Buy-in / Cash Compensation prices, and EuroCCP's actions:

Type	Price fluctuation	Receiving clearing member	Delivering clearing member	Buyer settlement	Buyer cash amount difference	ECCP	Seller settlement	Seller cash amount difference	EuroCCP
Buy-in	Original executed price < Buy-in price (Higher)	Settle original inx	Cancel Original inx + Debit difference	100		Buy-in price = 125	400	-25	EuroCCP to debit Seller
Buy-in	Original executed price > Buy-in price (Lower)	Settle original inx	Cancel original inx	100		Buy-in price = 75	400		Deemed paid
Type	Price fluctuation	Receiving clearing member	Delivering clearing member	Buyer settlement	Buyer cash amount	ECCP	Seller settlement	Seller cash amount	EuroCCP
Cash Compensation	Original executed price < (Lower) previous COB closing price	Cancel original inx	Cancel Original inx + Debit difference	400	25	Previous COB closing price = 125	400	-25	EuroCCP to debit Seller and credit Buyer
Cash Compensation	Original executed price > (Higher) previous COB closing price	Cancel original inx	Cancel original inx	400		Previous COB closing price = 75	400		No action
Cash Compensation	Original executed delivering party price < (Lower) previous COB closing price AND	Cancel original	Cancel Original inx + Debit difference EuroCCP balance (failing clearing member pays difference seller – buyer)	435		Previous COB closing price = 125	400	-25 price diff -10 balance = -35 Total	EuroCCP to debit Seller (incl. 10 balance is to recover earlier Sellers)
Cash Compensation	failing receiving party price > (Higher) previous COB closing price	Cancel original instruction + Credit difference EuroCCP balance (difference between buyer and seller settlements)	Cancel Original inx	400	+25 price diff +10 balance = +35 Total	Previous COB closing price = 125	435		EuroCCP to credit Buyer (incl. 10 balance received from earlier Buyers)

European Central Counterparty N.V. (EuroCCP), incorporated in the Netherlands, and having its registered office at Strawinskylaan 1847, 1077 XX Amsterdam, The Netherlands, is registered in the Dutch commercial register under number 34268194. EuroCCP is a Limited Liability Company with share capital of EUR 7,500,000. EuroCCP has a branch office in London that is registered in the UK, as a UK Establishment with Company No. FC031747 and UK Establishment No. BR016817.